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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors
New York Local Government Assistance Corporation:

We have audited the financial statements of the governmental activities and each major fund of the New York Local Government Assistance Corporation (Corporation), a blended component unit of the State of New York, as of and for the year ended March 31, 2007, which collectively comprise the Corporation's basic financial statements and have issued our report thereon dated July 25, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Corporation's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the finding 2007-2 described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2007-1.

The Corporation's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Corporation's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the board of directors, management of the Corporation, the New York State Legislature, the New York State Office of the State Comptroller, the New York State Division of the Budget, and the New York State Authority Budget Office and is not intended to be and should not be used by anyone other than those specified parties.

KPMG LLP

July 25, 2007

NEW YORK LOCAL GOVERNMENT ASSISTANCE CORPORATION

Schedule of Findings and Responses

Year ended March 31, 2007

Noncompliance with the Public Authorities Accountability Act of 2005

Reference: 2007-1

Finding

On January 13, 2006, former Governor George Pataki signed the Public Authorities Accountability Act of 2005 (the Act) which makes changes regarding the operation and governance of New York State public authorities, which includes the New York Local Government Assistance Corporation (the Corporation). Provisions of the Act, which impact the Corporation amongst others are as follows:

- The Act increased the number of Corporation Board members from three to seven, with the additional four board members being appointed by the Governor and whose terms expire at the end of the term of the Governor.

- Each financial report required to be submitted pursuant to Section 2800 of the Public Authorities Law must be approved by the board and shall certify in writing by the Executive Director and Chief Financial Officer (Treasurer) of the Corporation that based on their knowledge the information is accurate and complete, does not contain untrue statements or omits any material fact, and fairly presents in all material respects the financial condition and results of operations of the Corporation.

- The Board of Directors of the Corporation is now required to adopt a code of ethics, adopt a defense and indemnification policy, as well as conduct other duties expected of a governing board. In addition, individuals appointed to the Board of the Corporation are required to participate in State approved training regarding their legal, fiduciary, financial and ethical responsibilities as directors of the Corporation within one year of appointment to the Board.

- The Corporation’s board is now required to establish an audit committee comprised of independent members who to the extent practicable are familiar with corporate financial and accounting practices. The audit committee will recommend to the Board the hiring of the Corporation’s independent auditing firm as well as establish the compensation paid to the firm and provide direct oversight of the performance of the firm.

- The Corporation’s board is also now required to establish a governance committee to be comprised of independent members whose responsibilities will be to keep the members of the Board informed of current best governance practices, review corporate governance trends, update the Corporation’s governance principals and to advise appointing authorities on the skills and experiences required of potential board members.

The Act is applicable for the Corporation commencing for its fiscal year which started April 1, 2006.

NEW YORK LOCAL GOVERNMENT ASSISTANCE CORPORATION

Schedule of Findings and Responses

Year ended March 31, 2007

For the fiscal year ended March 31, 2007 the Corporation did not comply with the Public Authorities Accountability Act of 2005 as follows:

- Four additional members of the Board of Directors had not been timely appointed through December 2006 and five additional members had not been appointed through March 2007.

- The Corporation's Board of Directors did not create independent audit or governance committees as required by the Act.

- The Board of Directors of the Corporation had not adopted a code of ethics nor set policies and procedures for providing Board members with required training. However, Board members and Corporation staff by virtue of their State service were bound by the applicable provisions of the State's Public Officers Law setting a Code of Ethics for the Corporation.

- The Corporation does not have an annual report that outlines its code of ethics and an assessment of the effectiveness of its internal control structure and procedures.

- The Corporation did not certify in writing by the Executive Director and Chief Financial Officer (Treasurer) of the Corporation that based on their knowledge the financial report information is accurate and complete, does not contain untrue statements, omit any material fact, and fairly presents in all material respects the financial condition and results of operations of the Corporation.

The Act was created in order to improve financial reporting practices of public authorities and as a result noncompliance with the above items could have a direct and material effect on the determination of financial statement amounts.

Management's Response

As noted above, certain provision of the Public Authorities Accountability Act (the Act) became effective for the Corporation's fiscal year ending March 31, 2007, for most of which a majority of the positions on the Corporation's Board of Directors were vacant due to a statutory expansion of the Board of Directors by the Act and the expiration of the terms of all appointed members with the conclusion of the term of the Governor who appointed them on December 31, 2006. Due to the timing of both the expansion of the Board of Directors and the conclusion of the terms of those appointed, a majority of the positions on Corporation's Board of Directors were vacant or occupied by persons whose continuity of service to the Corporation was severely limited by law during the fiscal year ended March 31, 2007. These circumstances resulted in an extended period of transition for the Corporation and its Board of Directors which significantly limited its opportunity to comply with all the provisions of the Act. Subsequent to its fiscal year ended March 31, 2007 the Governor appointed persons to fill all vacancies on the Corporation's Board of Directors which will enable it to comply with the Act. Drafts of required reports have been prepared by staff for consideration by the Board of Directors at its next meeting. It is expected that the Board of Directors will consider and address all compliance issues at the next Board meeting which is expected to occur prior to the end of July 2007.

NEW YORK LOCAL GOVERNMENT ASSISTANCE CORPORATION

Schedule of Findings and Responses

Year ended March 31, 2007

Absence of Regular Board of Director Meetings

Reference: 2007-2

Finding

It is an accepted business practice that a board of directors sets the tone for an organization, approves certain decisions made by management and acts as a control to ensure that the mission of an organization is carried out and risks are identified and properly mitigated. The New York Local Government Assistance Corporation (Corporation) board of directors as outlined in the Section 3234 of the New York State Public Authorities law consists of seven members, including the State Comptroller and the Director of the Division of the Budget serving as ex-officio members, and five additional members appointed by the Governor.

During the fiscal year ended March 31, 2007, the Corporation's Board of Directors met only once in July 2006 to approve the Corporation's 2006 financial statements. The absence of regular board of directors meetings was in part a result of the lack of appointments by the appointing authority.

The absence of regular board of director meetings is considered a significant deficiency in internal controls over financial reporting due to the lack of fiscal oversight over Corporation's management. In addition, the absence of regular board of directors meetings may not allow management to sufficiently react to adverse market conditions, counter party credit rating changes, debt refinancing opportunities, contract approvals, law and regulation changes and the approval of other transactions that may be considered necessary as part of the Corporation's normal course of business.

Recommendation

We recommend the Corporation's board of directors meet on a regular basis in order to provide oversight and guidance to the Corporation and to approve transactions requiring Board approval.

Management's Response

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